

Message Text

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ACTION STR-07

INFO OCT-01 EUR-12 IO-14 ISO-00 STRE-00 AGRE-00 CEA-01
CIAE-00 COME-00 DODE-00 EB-08 FRB-03 H-01 INR-10
INT-05 L-03 LAB-04 NSAE-00 NSC-05 PA-01 CTME-00
AID-05 SS-15 ITC-01 TRSE-00 ICA-11 SP-02 SOE-02
OMB-01 DOE-15 AF-10 ARA-11 EA-10 NEA-11 OIC-02
DOEE-00 SSO-00 JUSE-00 /171 W
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P 291650Z SEP 78
FM USMISSION GENEVA
TO SECSTATE WASHDC PRIORITY 4612
INFO AMEMBASSY BRUSSELS

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USMTN, USEEC
ACTION STR PASS ELECTRICALLY
STR PASS CODEL

E.O. 11652:N/A
TAGS: MTN, ETRD, EEC
SUBJECT: US/EC BILATERAL ON TARIFFS, SEPTEMBER 27, 1978

1. SUMMARY. USMTN DEL (MCNAMARA ET AL) MET WITH EC DEL (DUGIMONT ET AL) ON THE QUESTION OF INCOMPLETENESS IN THE U.S. OFFER. THIS ISSUE, REPORTED IN NUMEROUS CABLES SINCE THE U.S. OFFER WAS FIRST TABLED, HAS BEEN RAISED BY DENMAN WITH AMBASSADOR MCDONALD IN BRUSSELS TWICE IN THE PAST TWO WEEKS. IN THIS FOLLOW-UP SESSION, IT WAS CLEAR THAT REGARDLESS OF HOW COOPERATIVE IN ATTITUDE THE U. S. MAY BE, THE EC INTENDS TO KEEP US FOREVER DEFENDING THE CONTINUING HOLES IN THE U.S. OFFER, WHILE AVOIDING WHERE- EVER POSSIBLE THE OPPORTUNITY TO TALK ABOUT THEIRS. END SUMMARY.

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2. ASP RUBBER FOOTWEAR. FOLLOWING THE SEQUENCE SET OUT IN THEIR NOTE OF 21 SEPTEMBER (BRUSSELS 18052), THE EC DEL ASKED WHEN WE INTENDED TO MAKE AN OFFER ON ASP RUBBER FOOTWEAR. MCNAMARA NOTED THE THE USITC REPORT ON ASP, CUSTOMS VALUATION PROBLEMS WITH ASP FOOTWEAR AND THE COMPLICATED NEGOTIATIONS BEING CONDUCTED IN WASHINGTON. WE OBSERVED THAT IN ORDER TO PROTECT THE INTERESTS OF

DOMESTIC PRODUCERS AND IMPORTERS, ESPECIALLY THOSE WHO SELL EC EXPORTS, WE WERE CONSIDERING SPLITTING CURRENT TSUS 700.60 INTO FIVE NEW ITEMS. DUGIMONT NOTED IT WAS THE HIGH QUALITY, ATHLETIC FOOTWEAR IN WHICH THE EC WAS INTERESTED. WE REPLIED THAT OUR ATTEMPTS TO ACCOMMODATE EC RUBBER FOOTWEAR INTERESTS HAD DELAYED THE TABLING OF THIS OFFER, BUT THAT IT WAS NOW THE U.S. INTENTION TO TABLE OUR OFFER BY MID-OCTOBER. WE OBSERVED THAT THE PROBLEM IS THE RESULT OF EC DEMANDS THAT WE ELIMINATE ASP, AND THAT WE COULD EASILY TAKE AN EXCEPTION ON ALL ITEMS CURRENTLY IN 700.60, RETAIN ASP ON THAT ITEM AND THUS FINALIZE OUR OFFER.

3. GELATIN. DUGIMONT NEXT COMPLAINED ABOUT THE FAILURE OF THE U.S. TO RESPOND TO THE EC'S JUNE 1 REQUEST, UNDER THE PROCEDURES FOR INDUSTRIAL TARIFFS, ON FOUR GELATIN LINES (TSUS 455.20, 455.24, 455.40 AND 455.42). WE NOTED THAT THE EC HAD INSISTED FOR YEARS ON DIFFERENT PROCEDURES FOR INDUSTRIAL AS OPPOSED TO AGRICULTURAL PRODUCTS, THAT DEFINITIONAL DIFFERENCES ARE BOUND TO OCCUR, AND THAT WE CONSIDERED GELATIN TO BE AN AGRICULTURAL PRODUCT. DUGIMONT RESPONDED THAT IF THE U.S. FAILED TO MAKE A REDUCTION ON GELATIN, THE EC WOULD MAKE A COMPENSATORY WITHDRAWAL. WE OBSERVED THAT WE WERE NOT IMPRESSED WITH EC THREATS OF WITHDRAWALS; COMPARED TO THEIR WITHDRAWALS ON CHEMICALS, A WITHDRAWAL ON GELATIN WOULD BE PRETTY MINOR. LIMITED OFFICIAL USE

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3. CERAMIC DINNERWARE. DUGIMONT ASKED ABOUT THE LEGAL STATUS OF OUR INFORMAL PROPOSAL FOR NOMENCLATURE REVISIONS AND NEW RATES. WE REPLIED THAT WE EXPECTED THE PRESIDENTIAL PROCLAMATION TERMINATING THE CURRENT IMPORT RELIEF TO BE ISSUED THE FIRST WEEK IN OCTOBER, AFTER WHICH A FORMAL OFFER, IDENTICAL TO THE INFORMAL DOCUMENTATION GIVEN TO THE EC IN JUNE, WOULD BE MADE. WE STRESSED HOW GENEROUS OVERALL OUR OFFER WOULD BE TO THE EC. IN A LINE-BY-LINE EXAMINATION, EC LISTED NEW TARIFF ITEMS: 533.20, EARTHENWARE HOTELWARE; 533.22, EARTHENWARE NOT OVER DOLS 38.00; 533.32, MUGS AND STEINS; 533.37 AND 533.39, NAMED PIECES; 533.52, BONE CHINA, HOTELWARE; AND 533.62, NONBONE CHINAWARE NOT OVER DOLS 56.00 A SET AS "POTENTIAL PROBLEMS." OF THESE, THE NEW 533.52 WITH ITS HEFTY INCREASE ON HOTELWARE BONE CHINAWARE WAS CLEARLY THE MOST ANTAGONIZING. WE SUGGESTED THAT THE EC CONSIDER OUR OFFER IN THIS SECTOR AS A WHOLE SINCE WITHOUT THE NOMENCLATURE REVISION AND ITS ISOLATED INSTANCES OF INCREASED DUTIES, THE U.S. WOULD NOT HAVE BEEN ABLE TO MAKE ANY OFFERS. WE DREW THE EC'S ATTENTION TO THE DIFFICULT THREE-WAY NEGOTIATIONS WHICH TOOK PLACE, AND

OUR LIMITED LATITUDE IN THIS AREA. TO MAKE A MAJOR MTN
ISSUE OVER A FEW MINOR INCREASES COULD, WE SUGGESTED,
UNGLUE THE ENTIRE PACKAGE. (NOTE: EC REACTION SEEMED TO
INDICATE THAT THEY TOOK INTO ACCOUNT THE DELICATE NEGOTIATIONS ON CERAMIC DINNERWARE; NEVERTHELESS, THEY
EXPECT THE RATE INCREASES TO BE NOTIFIED UNDER
ARTICLE XXVIII.)

4. ASP DOCUMENTATION. DISCUSSIONS ON ASP WERE BY FAR
THE MOST ACrimonious. FIRST, THE EC CLEARLY STATED THAT
IT WAS NOT PREPARED TO PAY FOR THE ELIMINATION OF WHAT
THEY VIEW AS A GATT ILLEGAL VALUATION SYSTEM EXCEPT
THROUGH THEIR PARTICIPATION IN THE VALUATION CODE.
SECOND, THEY ARE UNHAPPY WITH THE CONVERTED RATES
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THEMSELVES BECAUSE NO DATA HAS BEEN PROVIDED TO PERMIT

CHECKING OF THE CONVERSIONS. (FYI. SHORT OF GIVING THE EC THE 21,500 INVOICES USED BY THE USITC IN PREPARING THE CONVERSION, IT SEEMED THAT NO AMOUNT OF BACKGROUND MATERIAL WE SUPPLY WILL EVER BE SATISFACTORY FOR THEM TO DETERMINE WHETHER OR NOT THE CONVERTED RATES ARE FAIR. END FYI.) FINALLY, THE EC IS GREATLY UNHAPPY WITH THE REVISION SYSTEM WHEREBY THE EO NOMINE PROVISIONS IDENTIFY NON-COMPETITIVE ARTICLES, WHILE THE BASKET CATEGORIES IDENTIFY THE COMPETITIVE/ASP ARTICLES (AND THUS THE HIGHER CONVERTED RATES). THE EC AGAIN SUGGESTED THAT THE PRELIMINARY CONVERSION USED BY THE USITC TO SOLICIT VIEWS ON THE ISSUE WAS THE "FAIR" WAY TO GO. OUR EFFORTS TO DISCUSS PAYMENT FOR THE LOSS OF THE ASP SYSTEM WERE ALWAYS DEFLECTED BY A REFERENCE TO ONE OR MORE OF THE POINTS ABOVE. ALTHOUGH USMTN DEL FURNISHED THE EC WITH LIMITED OFFICIAL USE

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DERIVED ANNUAL TRADE DATA FOR THE NEW BENZENOID TARIFF ITEMS, THE EC TOOK LITTLE INTEREST IN OUR EFFORTS TO BE COOPERATIVE. FINALLY, WE SUGGESTED THAT WITHOUT ANY INDICATION OF PAYMENT FOR THE LOSS OF ASP, WE WOULD HAVE TO MAINTAIN THE SYSTEM. (FYI. SINCE THE EC KNOWS SUCH AN ACTION WOULD JEOPARDIZE THE VALUATION CODE, THEY DID NOT TAKE THIS THREAT VERY SERIOUSLY. END FYI.)

5. WATCHES. DUGIMONT SAID THAT THE U.S. WATCH OFFER AS IT APPEARS IN OUR JANUARY/JUNE OFFER CANNOT BE ANALYZED. MCNAMARA REPLIED THAT HAD THE EC CONTINUED THE TENTATIVE STEPS TOWARD IMPROVEMENTS STARTED IN JULY WE WOULD HAVE BEEN ABLE TO PROVIDE THEM WITH A COMPLETE WATCH NOMENCLATURE AND NEW RATES. HE NOTED THAT "WE ARE NOT IN THE IMPROVEMENT MODE" RIGHT NOW, AND WE WOULD PROVIDE THE EC THE COMPLETE WATCH NOMENCLATURE WITHOUT THE NEW RATES. AFTER LOOKING AT THE NEW NOMENCLATURE, DUGIMONT ASKED IF THE FIRST GENERATION ELECTRONIC (OR ELECTRIC) WATCHES WOULD BE CONSIDERED A CONVENTIONAL WATCH. WE STATED THAT IF THEY CONTAINED A BALANCE WHEEL AND A HAIRSPRING, THEY WOULD.

6. SPECIFIC TO AD VALOREM CONVERSIONS. DUGIMONT STRESSED THE UNCERTAINTY THAT THIS CONVERSION CAUSES ALONG WITH THE FAILURE TO SPECIFY THE SPECIFIC AND COMPOUND RATES IN THE U.S. OFFER IN THEIR LEGAL TERMS. WE REPLIED THAT WE INTENDED TO CONVERT SOME 600 SPECIFIC AND COMPOUND RATES IN THE U.S. TARIFF SCHEDULE AND THAT WE WOULD BE NOTIFYING THE GATT IN A FEW DAYS OF OUR INTENTION TO DO SO UNDER ARTICLE XXVIII WITHIN THE MTN. DUGIMONT AGAIN COMPLAINED THAT SUCH AN EFFORT WAS TOO EXTENSIVE FOR THE MTN. WE REPLIED THAT THE RATES THE U.S. INTENDED TO CONVERT WERE ALREADY EXPRESSED IN THE

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U.S. OFFER IN AD VALOREM TERMS, AND THAT THIS SHOULD SIMPLIFY AND EXPEDITE THE TYPE OF ANALYSIS USUALLY ASSOCIATED WITH RATE CONVERSIONS. DUGIMONT APPEARED UNCONVINCED.

7. NOMENCLATURE SIMPLIFICATIONS. DUGIMONT ASKED ABOUT OUR INTENTIONS HERE AND WE REPLIED THAT DECISIONS BY THE USG WERE EXPECTED BY MID-OCTOBER; MANY SIMPLIFICATIONS WOULD OCCUR IN OUR TEXTILE SCHEDULE. WHEN PRESSED, THE EC DEL REPLIED THAT THEY ALSO HAD SOME NOMENCLATURE CHANGES IN MIND.

8. COMMENT. IN MANY RESPECTS, THIS WAS A SERIOUSLY DISTURBING BILATERAL. THE EC SEEMED TO VIEW THE U.S. OFFER AS THE ONLY ONE UNDER NEGOTIATION. WITHOUT A MAJOR REVISION OF THE ASP OFFER NOMENCLATURE AND THE EXPOSURE OF EVERY SCRAP OF PAPER USED IN THE RATE CONVERSIONS, THE EC WILL DEFLECT EVERY REQUEST FOR ASP PAYMENT INTO A DISCUSSION ON THE GAPS IN THE CONVERSION DOCUMENTATION--AND ASP IS ONLY ONE POINT OF CONTENTION. ASSUMING DUGIMONT IS FOLLOWING A COURSE DECIDED UPON IN BRUSSELS, WE SEE OURSELVES BOGGED DOWN IN A HIGHLY UNSATISFACTORY SERIES OF TECHNICAL DEBATES WHICH WILL CONTINUE UNTIL THE LAST "T" IS CROSSED AND THE LAST "I" DOTTED IN THE U.S. OFFER. END COMMENT. DRAFTED BY MALISH. MCDONALD

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